

WCIRB Summary of September 30, 2006 Insurer Experience

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WCIRB Summary of September 30, 2006 Insurer Experience

The WCIRB has completed its initial review of September 30, 2006 experience submitted by insurers. This summary is based on data reported to the WCIRB by insurers who wrote approximately 90% of the statewide market using 2005 premium levels. In reviewing this information, the following should be noted:

1. This summary reflects a compilation of individual insurer reports of accident year and calendar year premium and loss experience. While the individual insurer data submissions are regularly checked for consistency and comparability with other data submitted by the insurer as well as with data submitted by other insurers, the source information underlying each insurer's data submission is not verified by the WCIRB.
2. Some of the figures and ratios shown are based on WCIRB actuarial projections of future claim payments, using information reported by insurers through September 30, 2006. Although the actuarial methodologies upon which these projections are predicated are comprehensively and regularly tested and the underlying assumptions verified, the actual costs that will ultimately emerge could differ from the amounts projected. Many of these projections will be updated regularly by the WCIRB as more mature information on these claims is reported in subsequent quarters.
3. The amounts and ratios shown represent statewide totals based on the amounts reported by all insurers writing workers' compensation insurance in California. The results for any individual insurer can differ significantly from the statewide average. An individual insurer's results are related to its underwriting book of business, claims and reserving practices, as well as the nature of its reinsurance arrangements.
4. Insurer-reported losses, which, in Exhibit 9, are compared to the WCIRB's estimates of ultimate losses, include estimates of insurers' incurred but not reported (IBNR) losses by line of business, state and accident year, and are on a basis that does not reflect anticipated reinsurance recoveries or employer-paid deductibles. As a result, the amounts shown in Exhibit 9 do not necessarily equate to specific estimates of the adequacy of insurers' unpaid losses.
5. Some of the provisions of Assembly Bill No. 227 (AB 227), Senate Bill No. 228 (SB 228) and Senate Bill No. 899 (SB 899) affect the cost of claims incurred prior to the effective date of the legislation. Projections of ultimate losses and ultimate loss severities have been adjusted to reflect the impact of AB 227, SB 228 and SB 899 on unpaid losses, based on methodologies developed by the WCIRB's Actuarial Committee.

The attached Exhibits 1 through 9.2, which summarize the WCIRB's review of reported September 30, 2006 insurer experience, reflect the following information:

- California statewide written premium (gross of deductible credits) reported for the first nine months of 2006 is estimated at \$12.8 billion. This is approximately 21% below the written premium reported for the first nine months of 2005 (Exhibit 1).
- The average statewide insurer rate (final insurer rates reflecting all rating plan adjustments except deductible credits, retrospective rating plan adjustments, and policyholder dividends) per \$100 of payroll for policies written in the third quarter of 2006 is \$3.21 (Exhibit 2). This is 29% below the average rate charged for the second six months of 2005 and 50% below the average rate charged in the second six months of 2003.

- After reflecting the estimated impact of AB 227, SB 228 and SB 899 on unpaid losses, the ultimate accident year losses for 2005 are projected by the WCIRB to be \$6.4 billion. This represents a decrease in estimated losses of approximately 11% from the ultimate losses currently projected for accident year 2004 and 46% from the ultimate losses currently projected for accident year 2002 (Exhibit 3).
- After reflecting the estimated impact of AB 227, SB 228 and SB 899 on unpaid losses, the WCIRB projects ultimate accident year loss ratios of 138%, 123%, 104%, 81%, 52%, 31% and 30% for the 1999, 2000, 2001, 2002, 2003, 2004 and 2005 accident years, respectively (Exhibit 4).¹
- After reflecting the estimated impact of AB 227, SB 228 and SB 899 on unpaid losses, the ultimate accident year 2005 combined loss and expense ratio is estimated by the WCIRB to be 54% (Exhibit 5).² This is the third consecutive accident year with combined ratios estimated to be below 80%, after eight consecutive years of combined ratios well in excess of 100%.
- The calendar period loss ratio reported for the first nine months of 2006 is 43%. This ratio is 10 percentage points below the ratio for the first nine months of 2005 and 11 percentage points below the full calendar year 2005 loss ratio (Exhibit 6.1). The calendar year combined ratio for 2005 is 79%—the lowest in many years (Exhibit 6.2).
- Indemnity claim frequency for the first nine months of 2006 is estimated to be 17% lower than for the first nine months of 2005. Currently, 2006 indemnity claim frequency is estimated at approximately 30% of its all-time high in 1991 and 48% below the level estimated for 2002 (Exhibit 7).³
- After reflecting the estimated impact of AB 227, SB 228 and SB 899 on unpaid losses, the WCIRB projects that the average cost of a 2005 indemnity claim will be approximately \$38,200.⁴ This severity, while approximately 5% more than the estimated average cost of a 2004 indemnity claim, is still 18% less than the average cost of a 2002 claim (Exhibit 8.1). Both indemnity and medical average costs per claim show increases in 2005 (Exhibits 8.2 and 8.3).
- After reflecting the estimated impact of AB 227, SB 228 and SB 899 on unpaid losses, the WCIRB's current estimate of ultimate losses on all injuries that occurred on or before December 31, 2005 is approximately \$8 billion less than the amounts reported by insurers (Exhibit 9.1).⁵ In particular, the WCIRB's current estimates of ultimate losses on accident years 2004 and 2005 are significantly less than those reported by insurers (Exhibit 9.2).

¹ These estimated loss ratios reflect the adjustment for the impact of the SB 228 fee schedule changes, SB 228 and SB 899 changes related to medical utilization, and SB 899 changes related to the January 1, 2005 Permanent Disability Rating Schedule on loss development projections.

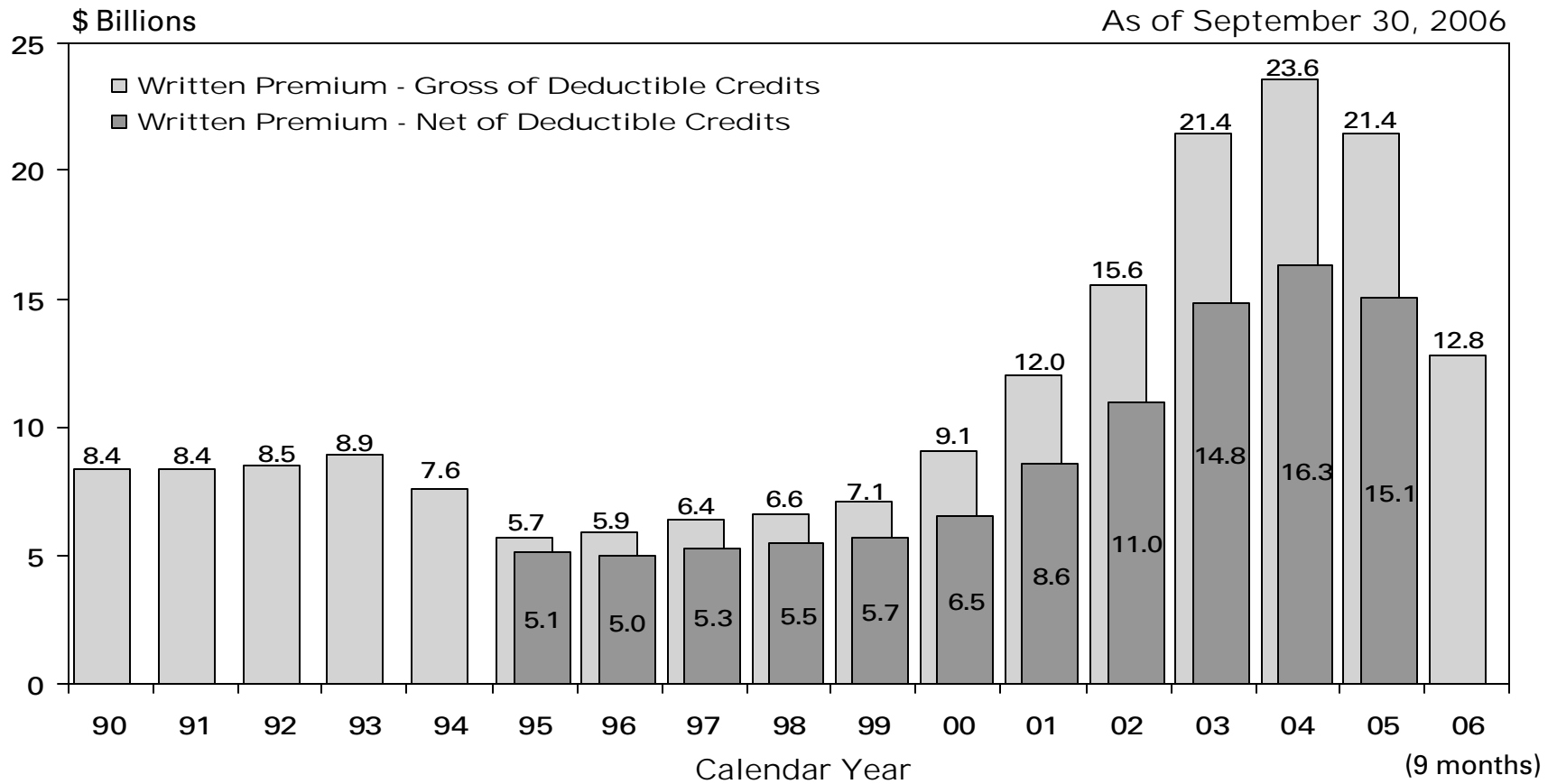
² As discussed above, the estimated loss ratios included in these combined ratios reflect the adjustment for the impact of the SB 228 fee schedule changes, SB 228 and SB 899 changes related to medical utilization, and SB 899 changes related to the January 1, 2005 Permanent Disability Rating Schedule on loss development projections.

³ The indicated annual changes in frequency from 1999 to 2001 appear to be statistical anomalies and not accurate reflections of the annual changes.

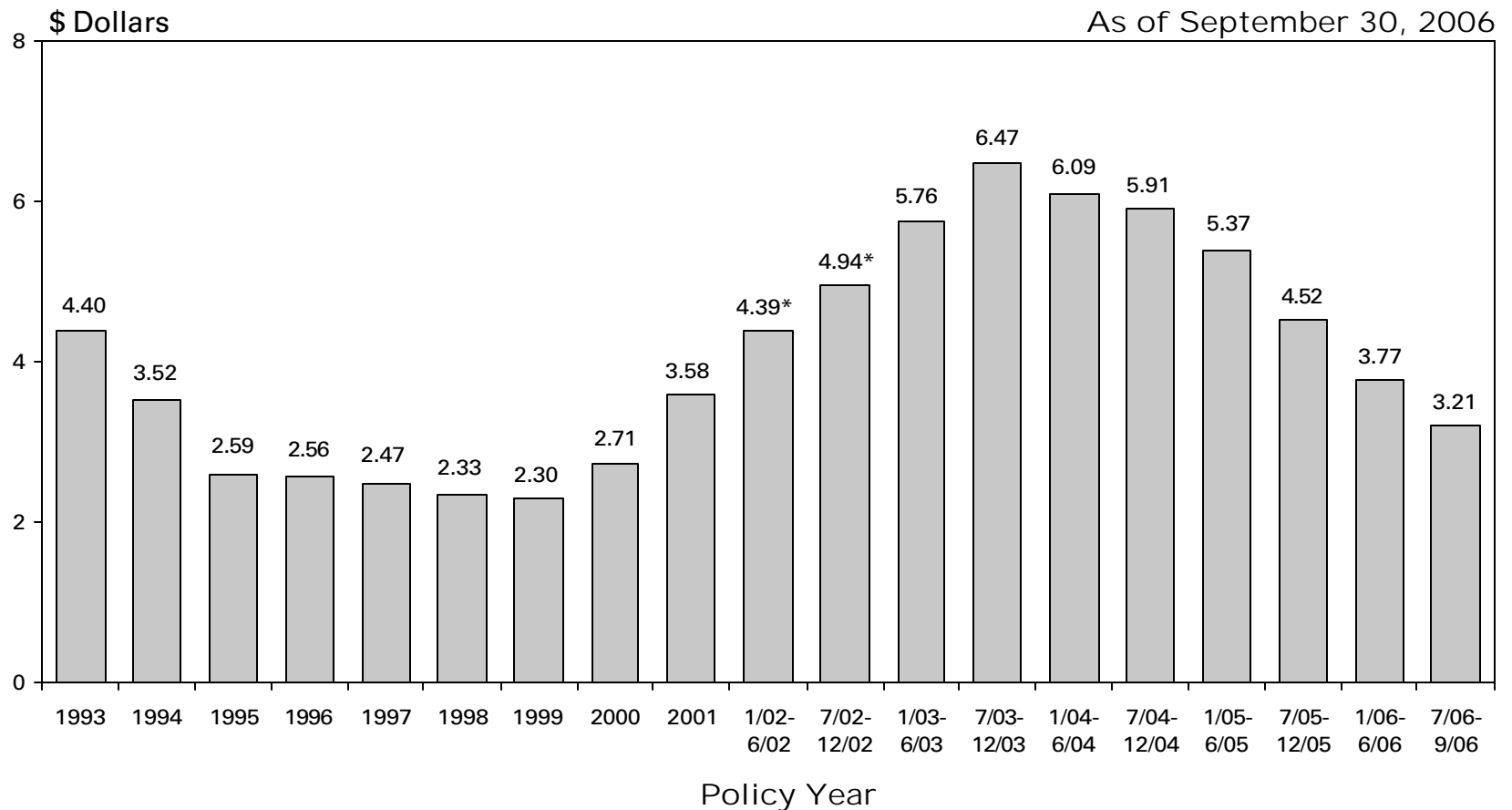
⁴ Initial accident year severity projections based on 21 months of experience are potentially subject to significant change as data matures inasmuch as they are based on both relatively immature accident year ultimate losses and claim frequency.

⁵ As discussed above, the estimated losses by accident year used in this calculation reflect the adjustment for the impact of the SB 228 fee schedule changes, SB 228 and SB 899 changes related to medical utilization, and SB 899 changes related to the January 1, 2005 Permanent Disability Rating Schedule on loss development projections.

California Workers' Compensation Written Premium



California Workers' Compensation Average Insurer Rate per \$100 of Payroll



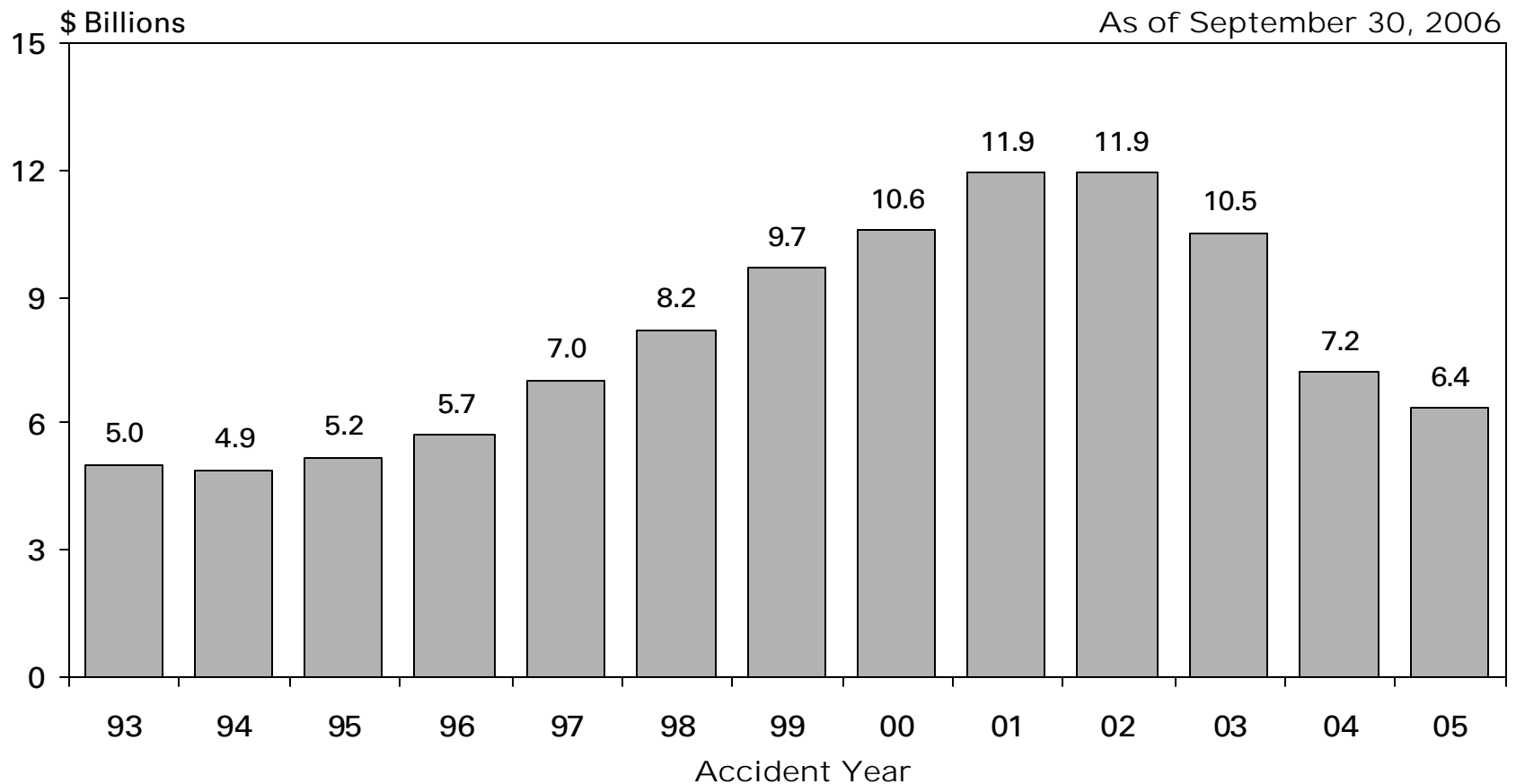
* Excludes the impact of the adopted changes to outstanding policy year 2002 pure premium rates effective January 1, 2003.

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Estimated Ultimate Losses by Accident Year

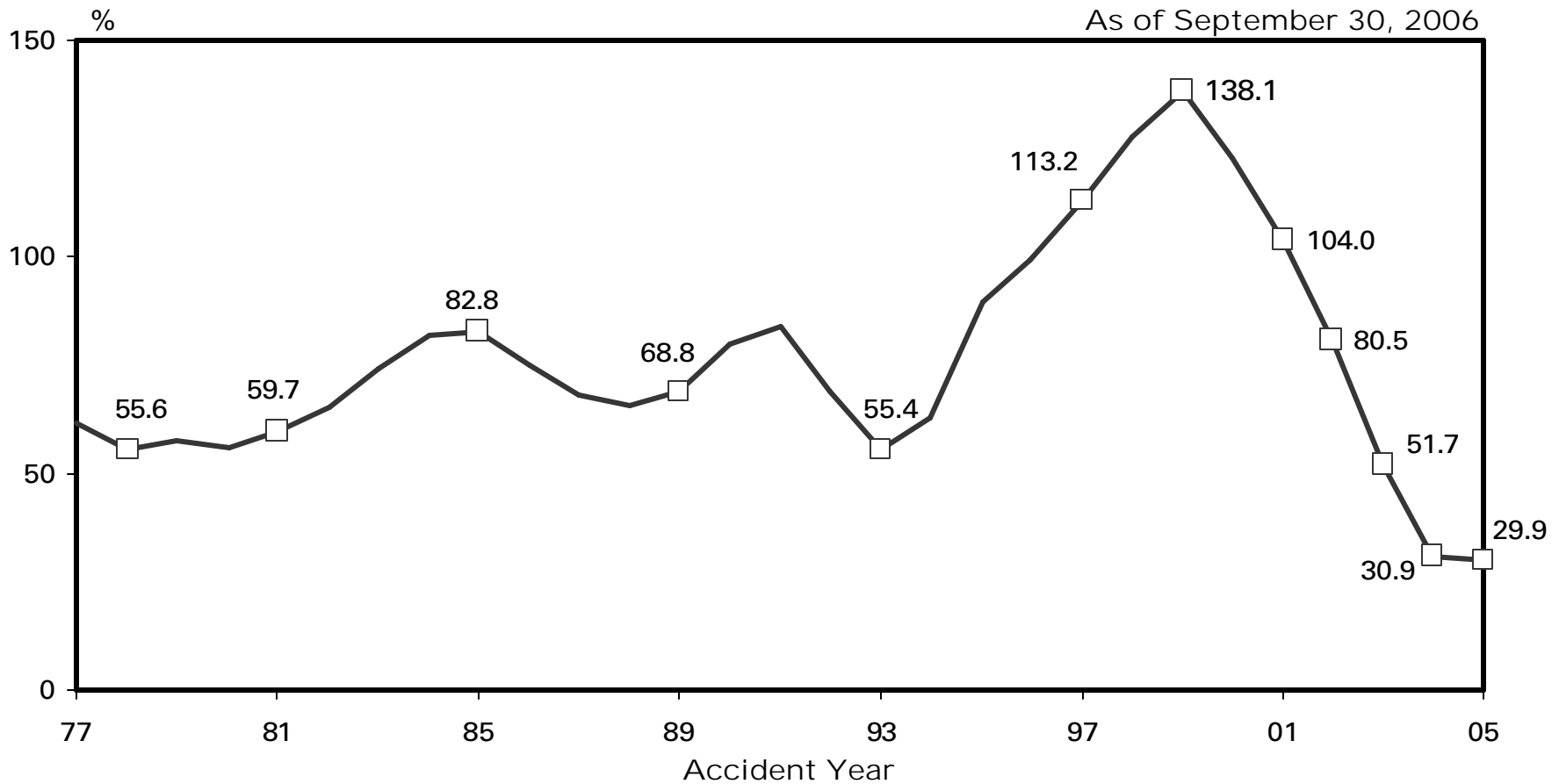
(After Reflecting the Estimated Impact of AB 227, SB 228 and SB 899 on Unpaid Losses)



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California Workers' Compensation Ultimate Accident Year Loss Ratios

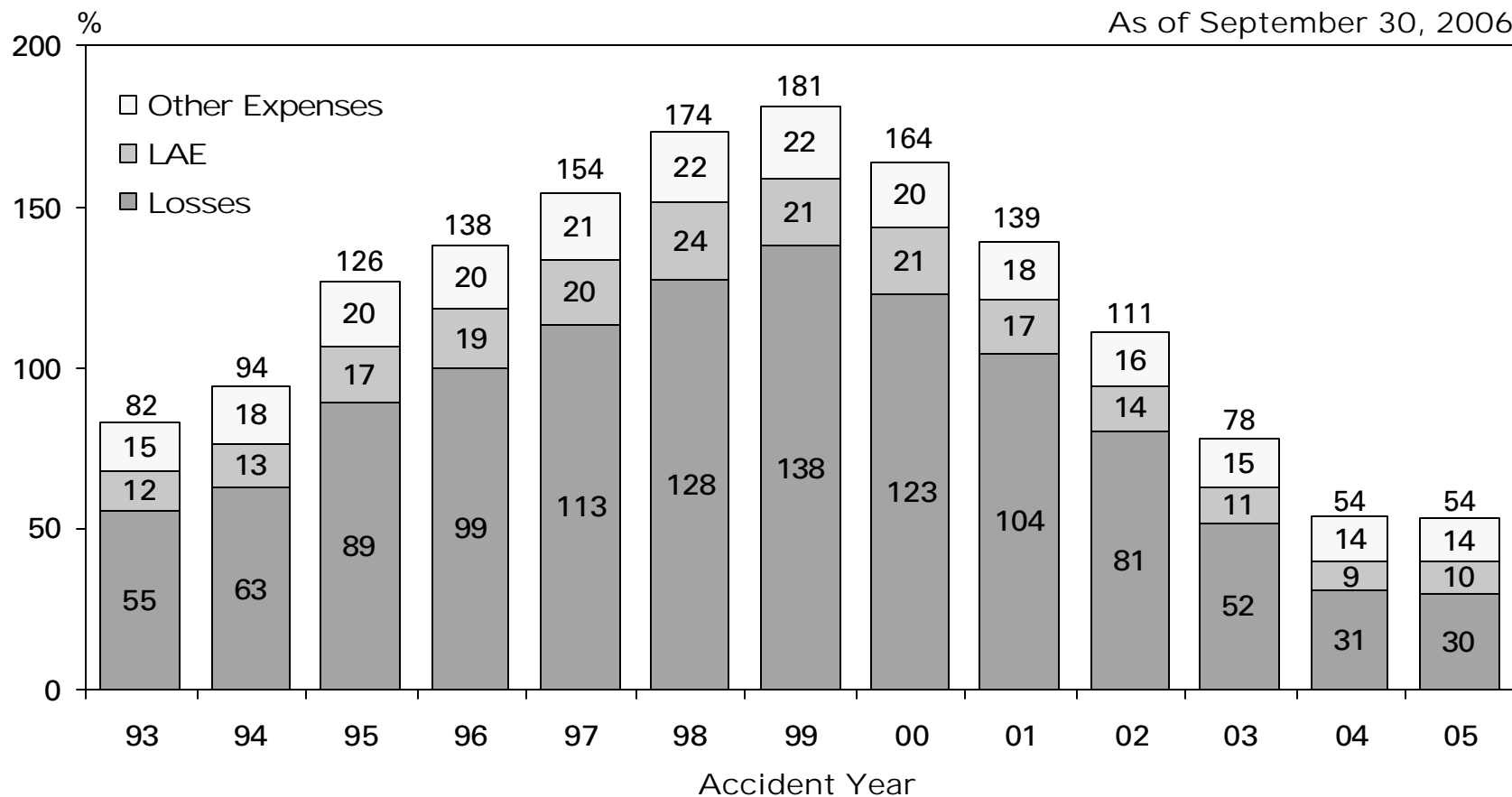
(After Reflecting the Estimated Impact of AB 227, SB 228 and SB 899 on Unpaid Losses)



California Workers' Compensation

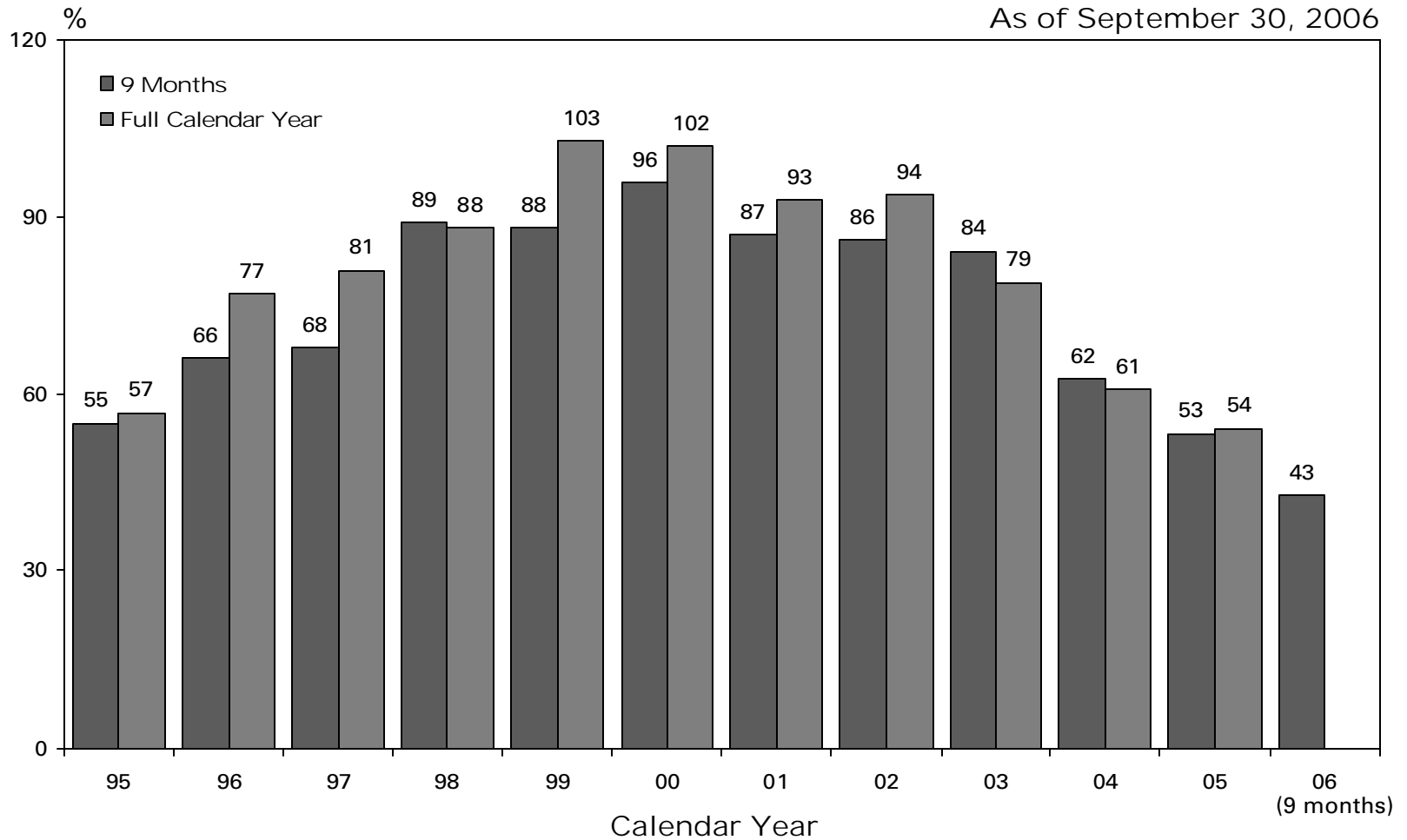
Accident Year Combined Loss and Expense Ratios

(After Reflecting the Estimated Impact of AB 227, SB 228 and SB 899 on Unpaid Losses)



California Workers' Compensation Calendar Period Loss Ratios

As of September 30, 2006

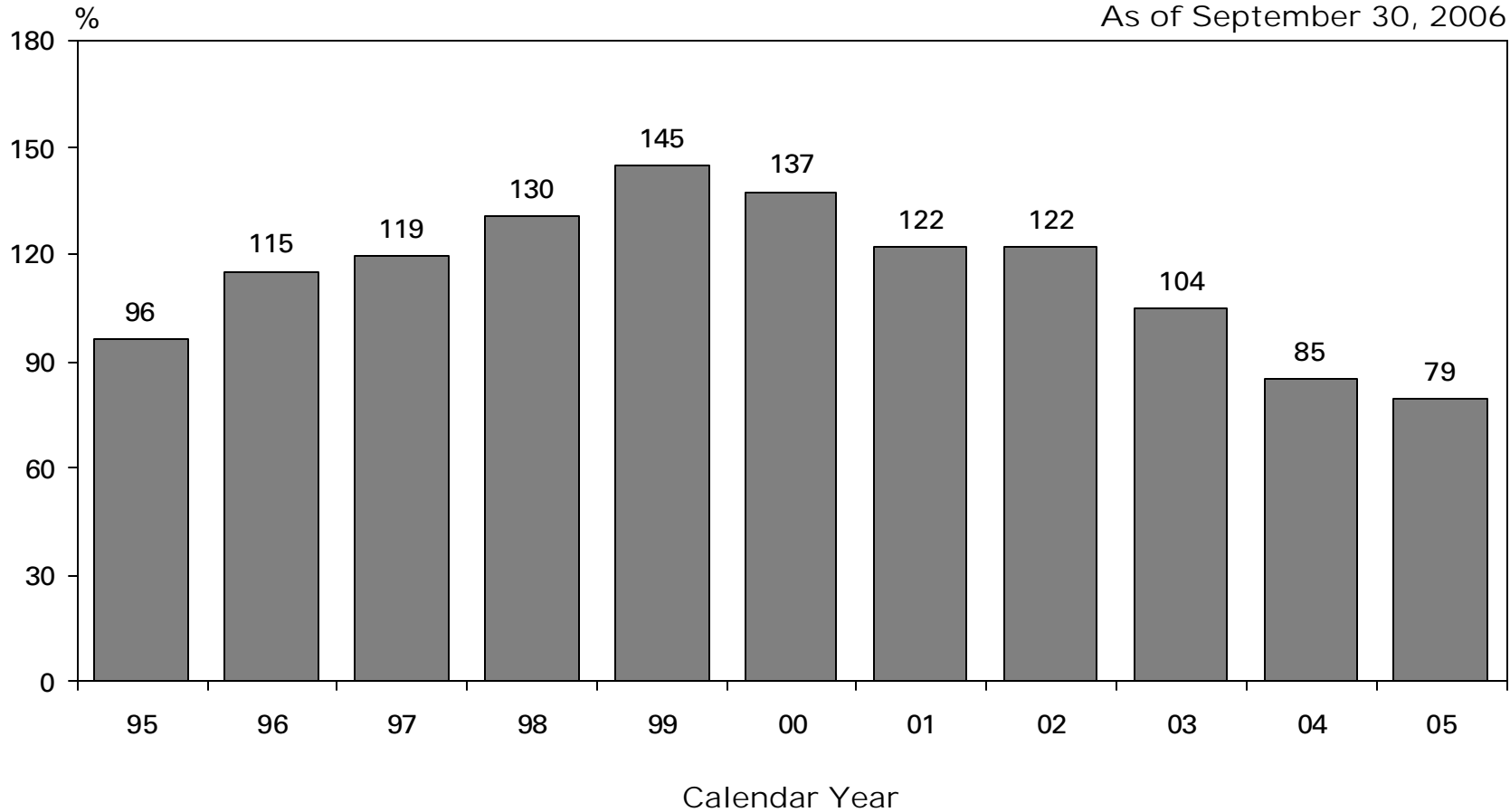


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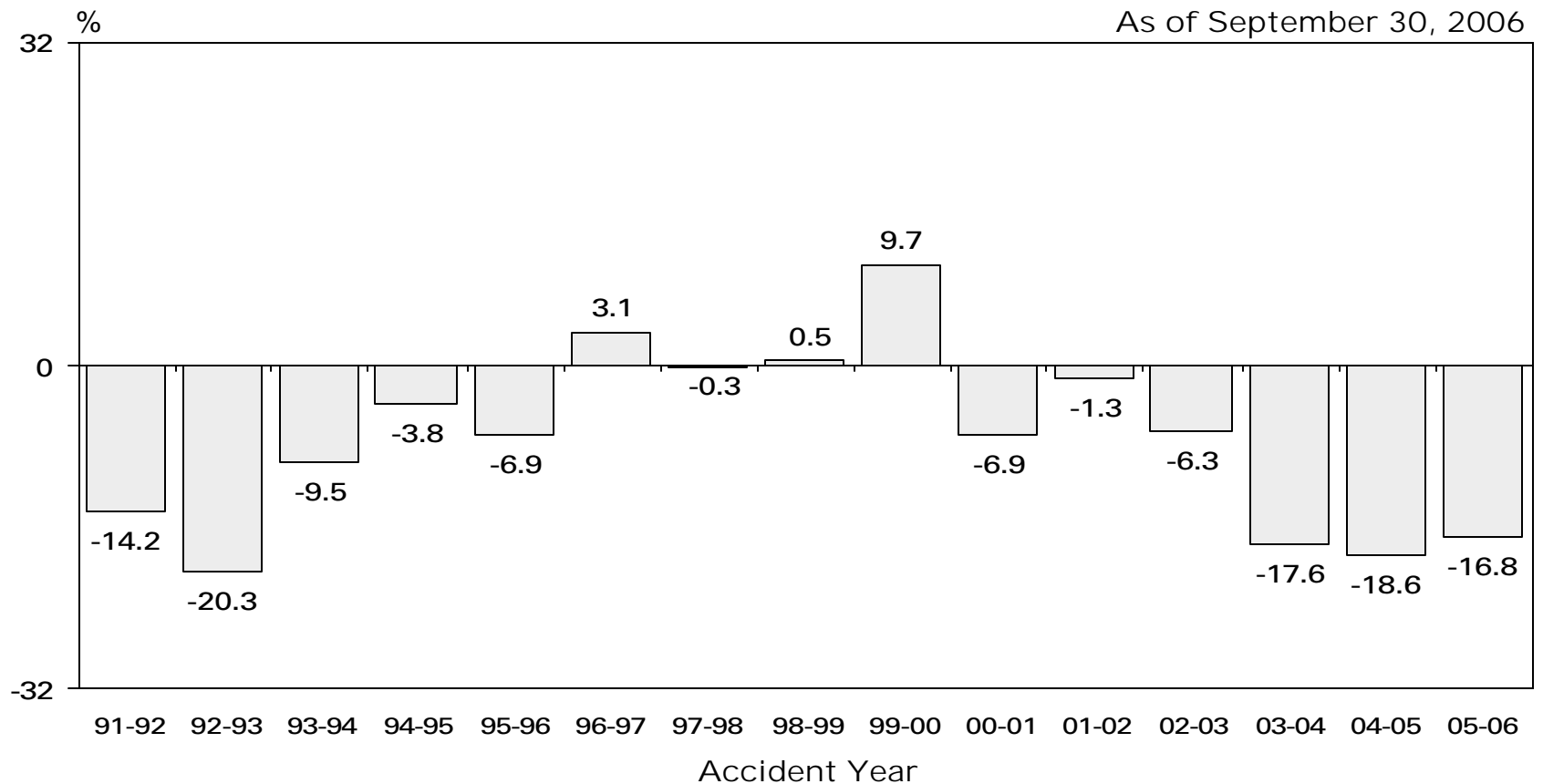
Calendar Year Combined Loss and Expense Ratios

As of September 30, 2006

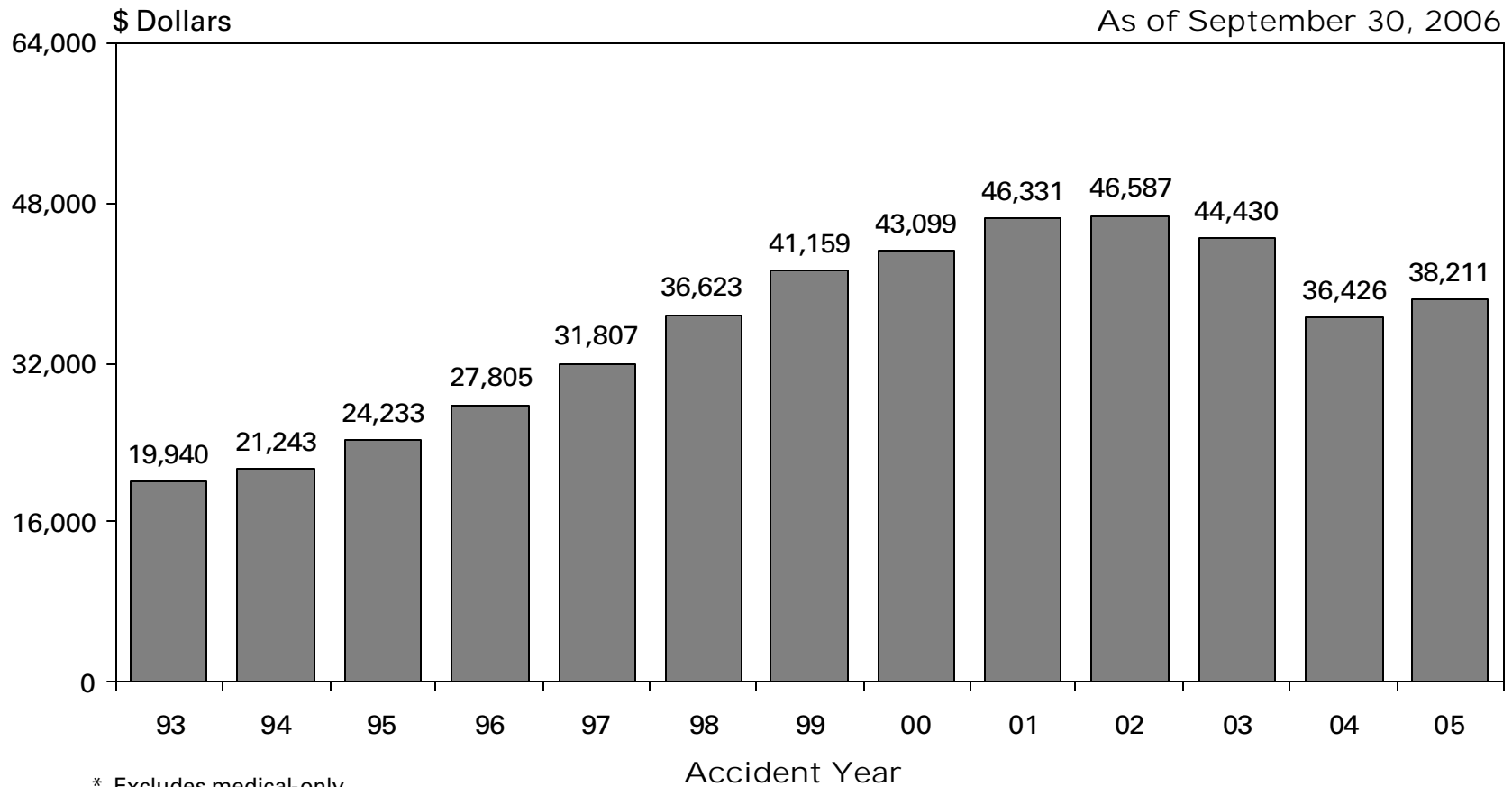


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California Workers' Compensation Estimated Percentage Change in Indemnity Claim Frequency by Accident Year

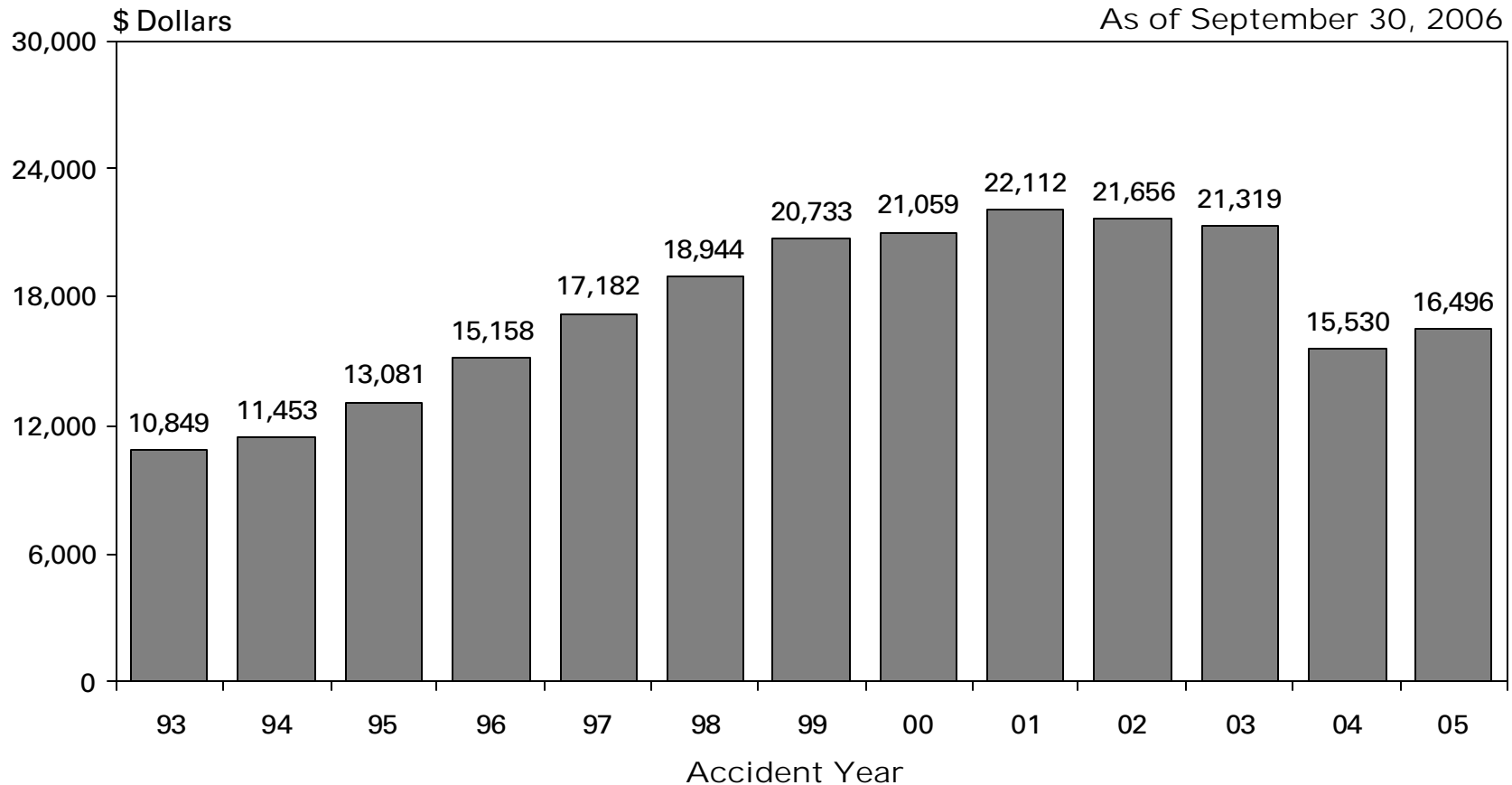


California Workers' Compensation Estimated Ultimate Total Loss* per Indemnity Claim (After Reflecting the Estimated Impact of AB 227, SB 228 and SB 899 on Unpaid Losses)



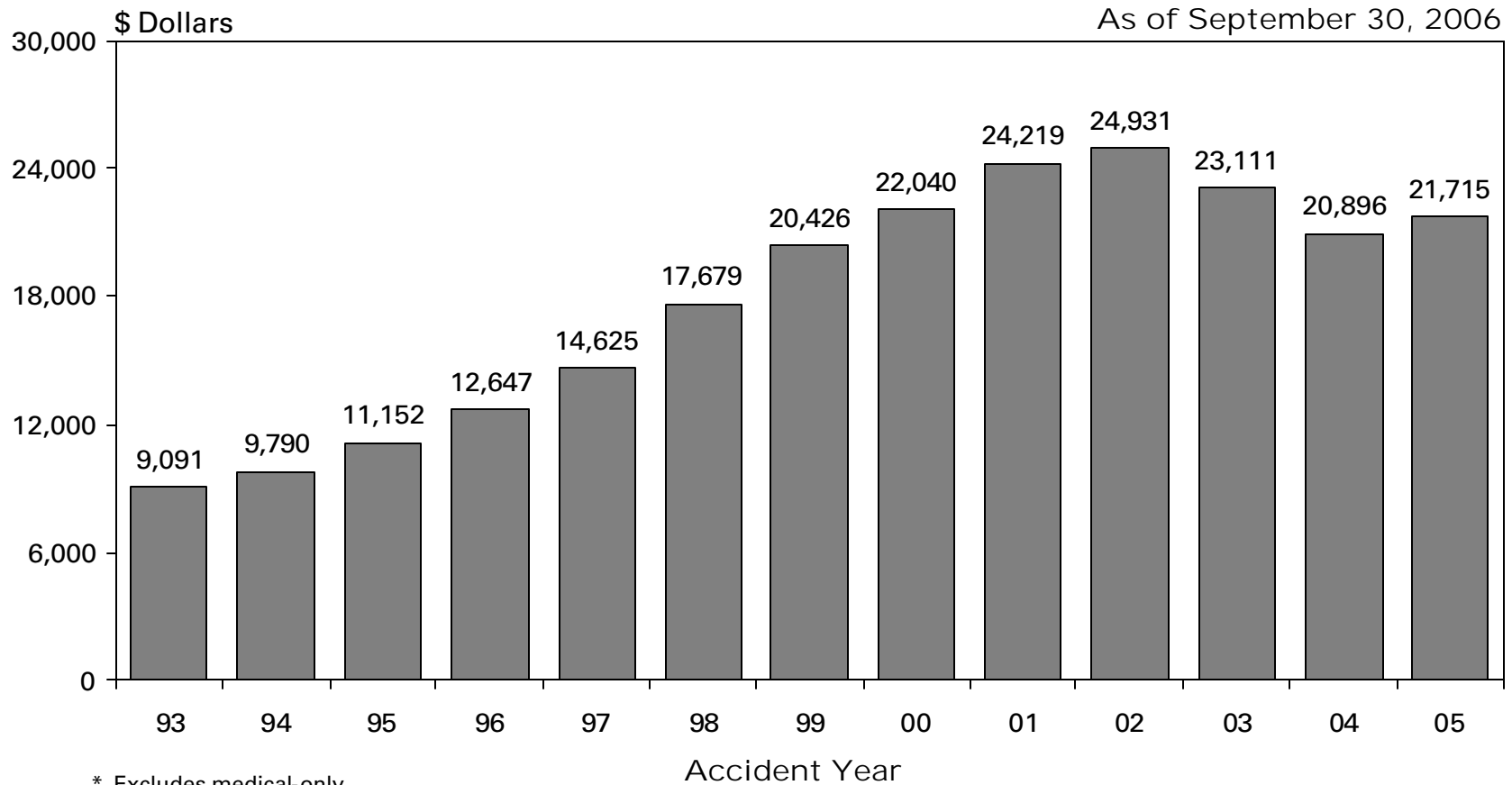
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California Workers' Compensation Estimated Ultimate Indemnity per Indemnity Claim (After Reflecting the Estimated Impact of AB 227, SB 228 and SB 899 on Unpaid Losses)



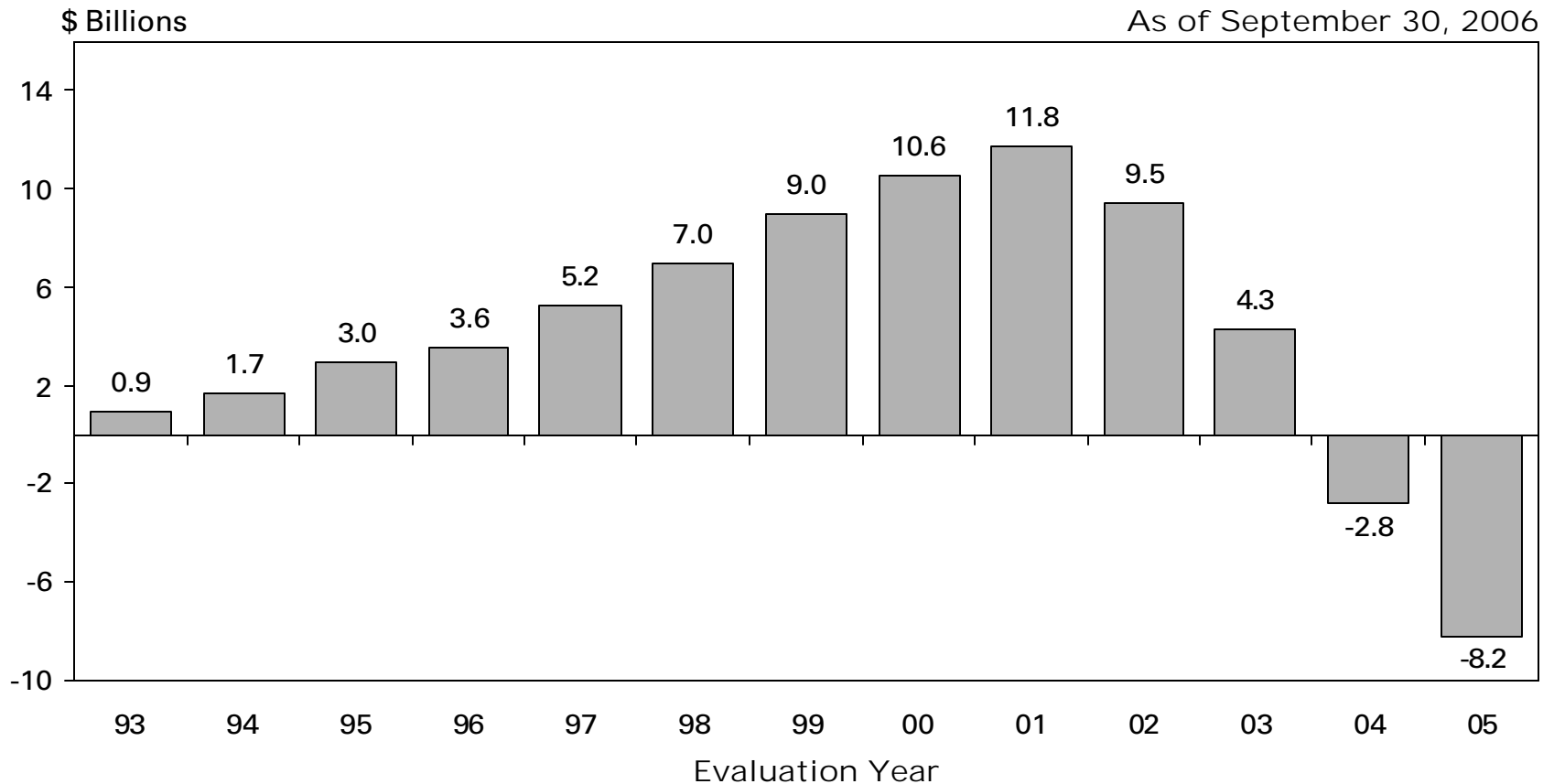
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California Workers' Compensation Estimated Ultimate Medical* per Indemnity Claim (After Reflecting the Estimated Impact of AB 227, SB 228 and SB 899 on Unpaid Losses)



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California Workers' Compensation Estimated Ultimate Losses Less Reported Losses at Successive December 31 Evaluations (After Reflecting the Estimated Impact of AB 227, SB 228 and SB 899 on Unpaid Losses)

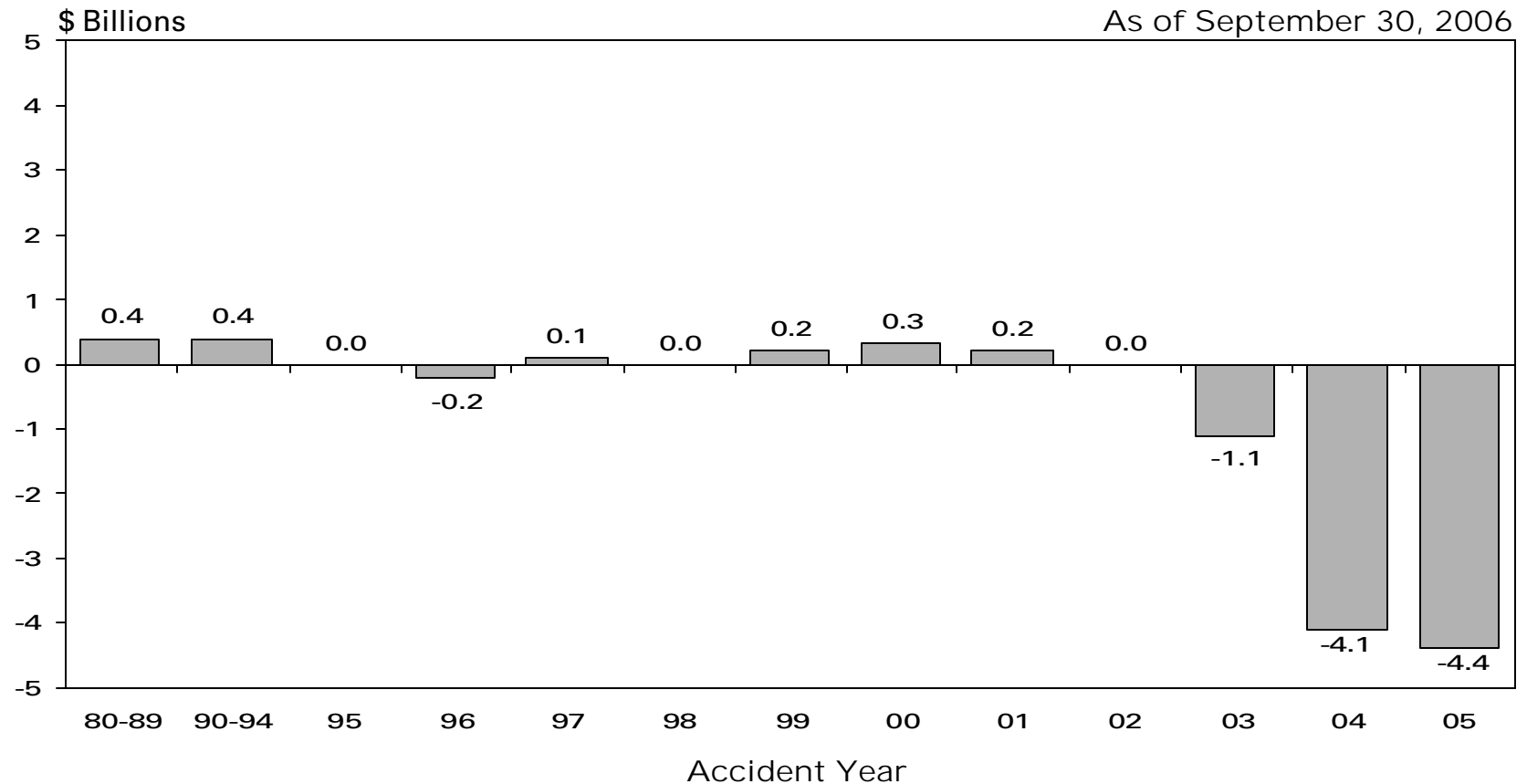


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California Workers' Compensation

Estimated Ultimate Losses as of September 30, 2006 Less Reported Losses at December 31, 2005

(After Reflecting the Estimated Impact of AB 227, SB 228 and SB 899 on Unpaid Losses)



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